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The Big Wheat Deal-2

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By the middle of July, as a Russian buying team quietly snapped up huge quantities of U.S. wheat and as a "spy" prepared to break the news to the world, Secretary of Agriculture Earl L. Butz was tantalizing U.S. farmers with visions of massive corn sales to the Soviets.

On July 11, in a speech before a farm group in Baton Rouge, La., Butz spoke of the recent \$750 million credit arrangement with the Russians.

He speculated that if Russia took the entire \$750 million in corn, "which we don't expect them to do," it would be "10 percent of our record 1971 corn crop."

On July 18, Butz gave the same speech in Oshkosh, Wis., and again the inference was that the bulk of the Russian sale would be in corn. It might be for more than the \$200 million minimum credit purchase that the Russians had agreed to take in one year, he added.

Three days later, the Russian buying team, headed by Nicolai Belousov, a shrewd trader with intimate knowledge of the U.S. marketing system, flew from New York to Moscow. During July, they had purchased roughly one-sixth of the U.S. wheat crop for about \$500 million, mostly in cash contracts.

ALTHOUGH BUTZ told a subcommittee later that he also believed the Russians might eventually buy some wheat, he said he did not know in what quantity. In early July, he explained, nobody was talking:

"Nobody knew then—neither the Department of Agriculture nor the trade—just how much the Russians would buy. The export traders were not telling each other. . . . The exporters did not tell the Department of Agriculture. Nor were the Russians talking."

Because of the secrecy that surrounded the team's negotiations with six U.S. grain trading companies, even close observers of the U.S. wheat market in July would have had little inkling that the largest wheat sale in history was underway.

Between July 11 and 27, the key export price, the price of wheat loaded on board a vessel at a Gulf port, hovered around \$1.76 a bushel. Some days it was a penny or two higher, some days a cent or two lower.

Meanwhile, the U.S. traders who sold to the Russians quietly walked a tightrope. None of them, according to testimony and interviews, was sure how much the Russians may have purchased from competitors.

An unspoken secret was the market. Profits depended on secrecy. Companies that had sold far more

wheat than they owned, a position called "short on wheat," were playing a cautious hand, hoping not to jar the fragile structure of the market while phasing buying schedules gradually upward.

Meanwhile, farmers in the southern part of the U.S. wheat belt were harvesting and selling their wheat, often for prices around \$1.29 a bushel. Routine USDA wheat reports mailed to farmers predicted a large supply of wheat would be on hand.

THERE WAS, however, at least one man who was trying to explode the tranquility of the marketplace. He called himself John Smith and, on July 15, he made the first of a long series of phone calls to the Milling & Baking News, a Kansas City trade publication.

Although it sells only about 6,000 copies of a weekly magazine and issues about 1,000 copies of a supplemental daily grain report, the Milling & Baking News is considered by many to be the "Bible" of the grain trading business. Several hundred copies go overseas.

John Smith spoke with a crisp British accent. In his conversations with the magazine's editor, Morton I. Sosland, Smith said he was an editor of London's "Financial Times."

"I have a scoop for you," he repeatedly told Sosland. The scoop was that the Russians had bought 5 million tons of wheat from U.S. traders.

Sosland remembers "sitting down hard" and wiping his brow. He couldn't believe it. "At a time when no one had even said in the press, or even hinted in markets, that the USSR was going to buy any significant amount of wheat . . . 5 million tons was an unthinkable, staggering total," he explained later.

In a wide-ranging, half-hour conversation with Smith, Sosland came to the conclusion that Smith had a depth of knowledge about the U.S. grain market "that is not found very often in the American grain industry, much less in Europe."

Nevertheless, Sosland decided he would "sit" on the story until he could confirm it with U.S. industry sources. In the days that followed, while Sosland's staff made fruitless attempts to confirm the sales, Smith sometimes called several times a day with the news that Financial Times was about to print the story.

OFTEN, Smith's phone calls lasted up to a half-hour. He talked about severe setbacks in the Russian wheat harvest and said the sales would send U.S. market prices up over \$2.00 a bushel. Sosland began to wonder whether he really was a reporter or an editor. "He knew too much to be either," he decided.

On July 31 Smith let Sosland in on another "scoop": The Russian wheat buying team had returned to New York. The total Russian purchase was now

approaching 7½ million tons and the Russians were back to buy still more because they had learned the Chinese were entering the market for U.S. wheat, he added.

Toward the end of July, perhaps on the same day, a man who called himself John Smith and spoke in a crisp British accent called Reuters' Washington news bureau and asked for Reginald Watts, the bureau's commodity reporter.

Told that Watts was on leave, Smith identified himself as one of Watts' sources and said added that he knew that the Russians had bought at least 25 million tons of U.S. wheat. He urged that Reuters put the story on the news wires before other wire services learned about it.

The bureau called Watts at home and Watts attempted to call Smith at a number he had left with the bureau.

"It was a phony number, some Puerto Rican family in the Bronx who knew nothing of any wheat business," Watts recalled.

While he was wondering who Smith was, Smith called the bureau again, anxious to know whether Reuters had run the story. Smith warned an editor that "Reggie Watts would be flaming mad" when he learned they hadn't.

THE BUREAU called Watts and gave him another number that Smith had left. It turned out to be another wrong number in the Bronx.

Smith, whoever he was, was right about the Russians' return. It is not yet clear why the buying team came back. Some agricultural experts believe that the true extent of the damage to the

Russian winter wheat crop from drought was not known until harvest in late July.

Watts, who eventually helped break the story of the Russian sale after checking with trading sources, later forgot about the Smith call, until he read the Sosland story.

"It was just another of those cranky things, I thought," he added.

Smith, whoever he was, was right about the Russians' return. It is not yet clear why the Russians returned, some agricultural experts believe that it was not known until late July, when the Russian winter crop was being harvested, how severely adverse weather conditions had impaired its quality.

At 9 a.m. on the 31st, the phone rang in Cargill's Minneapolis headquarters. It was Leonid Kalitenko, Belousov's assistant. Could Cargill's negotiators come to the New York Hilton as soon as possible?

Cargill's vice president, W. B. Saunders and other company officials arrived in Manhattan that afternoon. By the next morning, Cargill had sold another million tons.

Rumors of the Russians' return buzzed throughout the grain export industry. The Cargill

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